

**CITY OF ELGIN**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2013**

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CITY OF ELGIN

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
William Pfister	Mayor	Jan. 2014
James Knobloch	Mayor Pro tem	Jan. 2016
Sarah Schori	Council Member	Jan. 2014
Sara Strong	Council Member	Jan. 2014
Robert Frieden	Council Member	Jan. 2016
Michael Baker	Council Member	Jan. 2016
Rhonda Dales	City Clerk	Indefinite
Larry Ormston	Treasurer	Indefinite
David Katsumes	Attorney	Indefinite



# Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

**STEVEN S. CLAUSEN, CPA**

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Elkader, Iowa 52043

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council:

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Elgin, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing the audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Elgin as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

### Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

### Other Matters

#### *Supplementary and other information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Elgin's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2012 (which are not presented herein) and expressed a qualified opinion on those financial statements, which were all prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally



accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the Budgetary Comparison Information on pages 8 through 15 and 29 through 30, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 10, 2014 on our consideration of the City of Elgin's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Elgin's internal control over financial reporting and compliance.

Elkader, Iowa

January 10, 2014



Dietz, Donald & Company  
Certified Public Accountants  
FEIN 42-1172392



## **City of Elgin**

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### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Elgin provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements which follow.

#### **2013 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities decreased 1.3%, or approximately \$ 24,000 from fiscal 2012 to fiscal 2013. Property tax decreased approximately \$ 155 and bond proceeds decreased approximately \$ 30,000.
- Disbursements of the City's governmental activities increased 0.5% or approximately \$ 9,700 in fiscal 2013 from fiscal 2012. Community and economic development and public works increased approximately \$ 176,000 and \$ 37,000, respectively. Capital projects decreased \$ 215,000.
- The City's total cash basis net position decreased 10.2%, or approximately \$ 66,000 from June 30, 2012 to June 30, 2013. Of this amount, the cash basis net position of the governmental activities decreased approximately \$ 53,000 and the cash basis net position of the business type activities decreased approximately \$ 13,000.

#### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.



The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the non-major governmental and proprietary funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases and decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

1. Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most

of these activities.

2. Business Type Activities include the waterworks, the sanitary sewer system and solid waste disposal. These activities are financed primarily by user charges.

#### *Fund Financial Statements*

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include [a] the General Fund, [b] the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, [c] the Debt Service Fund, [d] the Capital Projects Fund, and [e] the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to account for business type activities. The City maintains three Enterprise Funds to provide separate information for the Water, Sewer, and Solid Waste funds.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

#### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing approximately \$ 53,000 to approximately \$ 551,000. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities  
(Expressed in Thousands)

	<u>Year Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Receipts:		
Program receipts:		
Charges for service	\$ 34	59
Operating grants, contributions, and		
Restricted interest	123	76
Capital grants, contributions and		
Restricted interest	1,057	1,065
General receipts:		
Property tax	167	167
Local option sales tax	44	47
Unrestricted interest on investments	1	1
Bond proceeds	470	499
Other general receipts	<u>1</u>	<u>7</u>
Total receipts	<u>1,897</u>	<u>1,921</u>
Disbursements:		
Public safety	34	30
Public works	138	101
Culture and recreation	60	82
Community and economic development	184	8
General government	70	76
Debt service	82	47
Capital projects	<u>1,357</u>	<u>1,572</u>
Total disbursements	<u>1,925</u>	<u>1,916</u>
Change in cash basis net position before transfers	(28)	5
Transfers, net	<u>(25)</u>	<u>-</u>
Change in cash basis net position	(53)	5
Cash basis net position beginning of year	<u>604</u>	<u>599</u>
Cash basis net position end of year	<u>\$ 551</u>	<u>604</u>



The City's total receipts for governmental activities decreased 1.3%, or approximately \$ 24,000. The total cost of programs and services increased approximately \$ 9,700 or 0.5%.

City property tax receipts decreased \$ 155 in 2013. Property taxes are budgeted to increase approximately \$ 8,700 in 2014, due primarily to a 2.0% increase in property tax rates and a 3.1% increase in property valuations.

The cost of all governmental activities this year was approximately \$ 1.925 million compared to \$ 1.916 million last year. However, as shown in the Cash Basis Statement of Activities and Net Position on page 17, the amount taxpayers ultimately financed for these activities was only \$ 712,000 because some of the cost was paid by those directly benefited from the programs (\$ 34,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$ 1.180 million). Overall in 2013, the City's governmental activities program receipts, including intergovernmental aid and fees for services, increased from approximately \$ 1.200 million to approximately \$ 1.214 million, principally due to receiving more grant proceeds and donations. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$ 211,000 in tax (some of which could only be used for certain programs) and with other receipts, such as bond proceeds.

Changes in Cash Basis Net Position of Business Type Activities  
(Expressed in Thousands)

	<u>Year Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 71	74
Sewer	84	64
Solid Waste	<u>66</u>	<u>66</u>
Total receipts	<u>221</u>	<u>204</u>
Disbursements:		
Water	102	33
Sewer	100	92
Solid Waste	<u>57</u>	<u>60</u>
Total disbursements	<u>259</u>	<u>185</u>



Change in cash basis net position before transfers	(38)	19
Transfers, net	<u>25</u>	<u>-</u>
Change in cash basis net position	(13)	19
Cash basis net position beginning of year	<u>46</u>	<u>27</u>
Cash basis net position end of year	<u>\$ 33</u>	<u>46</u>

Total business type activities receipts for the fiscal year were approximately \$ 221,000 compared to \$ 204,000 last year. The significant increase was due primarily to an increase in rates in the prior year. Total disbursements increased from approximately \$ 185,000 to approximately \$ 259,000 because of water revenue bond debt service beginning in 2013.

### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Elgin completed the year, its governmental funds reported a combined fund balance of \$ 551,032, a decrease of \$53,352 from last year's total of \$ 604,384. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$ 133,372 from the prior year to \$ 437,244. This increase was due primarily to transfer from the Capital Projects Fund of unspent funds in fiscal 2013.
- The Debt Service Fund balance decreased \$ 6,015 from the prior year to \$ 61,689. The Fund retired \$ 64,000 of outstanding debt and paid \$ 17,983 of interest during fiscal 2013. The Fund received \$ 46,104 in property taxes, \$ 8,809 in special assessments, and a \$ 21,005 transfer from the Special Revenue, Local Options Sales Tax Fund.
- The Capital Projects Fund cash balance decreased \$ 170,388 from the prior year to \$ 6,094. The Fund received \$ 891,546 in grant proceeds and \$ 496,770 in bond proceeds. The Fund disbursed \$ 91,856 for the sewer project, \$ 92,842 for the housing rehabilitation, \$ 434,615 for the storm project, \$ 43,056 for completion of the bridge and \$ 694,463 for the water project.

### **BUDGETARY HIGHLIGHTS**

The City's receipts were \$ 267,357 more than budgeted. This was primarily due to the City receiving more in federal grants than anticipated.

Total disbursements were \$ 503,519 more than budgeted. However, actual disbursements for the public works and general government functions were \$ 92,440 and \$ 6,293, respectively, less than budgeted.

The City exceeded the amounts budgeted in the public safety, culture and recreation, community and economic development, debt service, capital projects and business type activities functions.

## **DEBT ADMINISTRATION**

At June 30, 2013, the City had \$ 1,519,463 of long-term debt outstanding, compared to \$ 1,168,970 last year, as shown in the following.

<u>Outstanding Debt at Year-End</u> <u>(Expressed in Thousands)</u>		
	<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>
General obligation notes	\$ 458	522
Revenue bonds	1,061	514
Anticipation notes	<u>-</u>	<u>133</u>
Total	<u>\$ 1,519</u>	<u>1,169</u>

Debt increased as a result of issuing revenue bonds for water and sewer projects under the State Revolving Fund Program.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$ 458,000 is less than its constitutional debt limit of approximately \$ 1.2 million.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City of Elgin's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates and fees that will be charged for various City activities. One of these factors is growth. Population over the last 40 years increased 11.4%. Taxable valuations increased 3.1% between January 1, 2011 and January 1, 2012.

These indicators were taken into account when adopting the budget for fiscal year 2014. Amounts available for appropriation in the operating budget are approximately \$ 1.6 million, a decrease of 14% from the 2013 budget. Property taxes are budgeted to increase \$ 7,688. The tax levy rate will increase 2.0%. Disbursements are budgeted to

decrease approximately \$ 21,000.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$ 45,000 by the close of 2014.

#### **CONTACTING THE CITY'S MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Rhonda Dales, City Clerk; 212 Main Street; Elgin, Iowa 52141-0155.

## **BASIC FINANCIAL STATEMENTS**



Exhibit A

CITY OF ELGIN  
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION  
As of and for the Year Ended June 30, 2013

Functions/Programs: Governmental Activities:	Disbursements	Program Receipts			Net Disbursements (Receipts) and Changes in Cash Basis Net Position
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
Public safety	\$ 34,087	12,668	8,061	-	(13,358)
Public works	138,560	-	65,408	-	(73,152)
Culture and recreation	59,656	8,585	14,642	-	(36,429)
Community and economic development	183,844	2,306	34,750	165,681	-
General government	70,507	1,340	-	-	(69,167)
Debt service	81,933	8,809	-	-	(73,124)
Capital projects	1,356,832	-	-	891,546	(465,286)
Total governmental activities	1,925,419	33,708	122,861	1,057,227	(711,623)
Business type activities:					
Water	102,283	70,868	-	-	(31,415)
Sewer	99,737	83,740	-	-	(15,997)
Solid waste	56,976	66,535	-	-	9,559
Total business type activities	258,996	221,143	-	-	(37,853)
Total	\$ 2,184,415	254,851	122,861	1,057,227	(711,623)
General Receipts and Transfers					
Property and other city tax levied for:					
General purposes					
Debt service					120,837
Local option sales tax					46,104
Unrestricted interest on investments					44,451
Bond proceeds					764
Miscellaneous					469,770
Transfers					1,294
Total general receipts and transfers					24,949
Change in cash basis net position					683,220
Cash basis net position beginning of year					658,271
Cash basis net position end of year					(53,352)
Cash Basis Net Position					604,384
Restricted:					
Nonependable:					\$ 551,032
Cemetery perpetual care					33,376
Expendable:					
Cemetery					11,429
Debt service					-
Streets					12,000
Capital projects					61,689
Economic development					16,592
Unrestricted					6,094
Total cash basis net position					425,244
					33,376
					584,408

See notes to financial statements.

Exhibit B

CITY OF ELGIN  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2013

	General	Debt Service	Capital Projects	Nonmajor	Total
<b>Receipts:</b>					
Property tax	\$ 120,691	46,104	-	146	166,941
Other city tax	-	-	-	44,451	44,451
Licenses and permits	1,340	-	-	-	1,340
Use of money and property	5,570	-	-	-	5,570
Intergovernmental	188,922	-	891,546	80,158	1,160,626
Charges for service	807	-	-	-	807
Special assessments	-	8,809	-	-	8,809
Miscellaneous	16,146	-	-	22,556	38,702
<b>Total receipts</b>	<b>333,476</b>	<b>54,913</b>	<b>891,546</b>	<b>147,311</b>	<b>1,427,246</b>
<b>Disbursements:</b>					
Operating:					
Public safety	34,087	-	-	-	34,087
Public works	46,932	-	-	91,628	138,560
Culture and recreation	57,901	-	-	1,755	59,656
Community and economic development	163,772	-	-	20,072	183,844
General government	68,508	-	-	1,999	70,507
Debt service	-	81,933	-	-	81,933
Capital projects	-	-	1,356,832	-	1,356,832
<b>Total disbursements</b>	<b>371,200</b>	<b>81,933</b>	<b>1,356,832</b>	<b>115,454</b>	<b>1,925,419</b>
Excess (deficiency) of receipts over (under) disbursements	(37,724)	(27,020)	(465,286)	31,857	(498,173)
Other financing sources (uses):					
Bond and note proceeds	-	-	469,770	-	469,770
Operating transfers in	173,369	21,005	-	2,273	196,647
Operating transfers out	(2,273)	-	(174,872)	(44,451)	(221,596)
<b>Total other financing sources (uses)</b>	<b>171,096</b>	<b>21,005</b>	<b>294,898</b>	<b>(42,178)</b>	<b>444,821</b>
Change in cash balances	133,372	(6,015)	(170,388)	(10,321)	(53,352)
Cash balances beginning of year	303,872	67,704	176,482	56,326	604,384
Cash balances end of year	\$ 437,244	61,689	6,094	46,005	551,032
<b>Cash Basis Fund Balances</b>					
Nonspendable-Cemetery perpetual care	\$ -	-	-	11,429	11,429
Restricted for:					
Cemetery	12,000	-	-	-	12,000
Debt service	-	61,689	-	-	61,689
Streets	-	-	-	16,592	16,592
Capital projects	-	-	6,094	-	6,094
Economic development	-	-	-	17,984	17,984
Committed for library	118,179	-	-	-	118,179
Unassigned	307,065	-	-	-	307,065
<b>Total cash basis fund balances</b>	<b>\$ 437,244</b>	<b>61,689</b>	<b>6,094</b>	<b>46,005</b>	<b>551,032</b>

See notes to financial statements.

CITY OF ELGIN  
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
 AND CHANGES IN CASH BALANCES  
 PROPRIETARY FUNDS  
 As of and for the Year Ended June 30, 2013

	<u>Enterprise</u> <u>Nonmajor</u>
Operating receipts:	
Charges for service	\$ 221,143
Operating disbursements:	
Business type activities	<u>180,334</u>
Excess of operating receipts over operating disbursements	40,809
Non-operating disbursements:	
Debt service	<u>78,662</u>
Deficiency of receipts under disbursements	(37,853)
Other financing sources:	
Operating transfers in	<u>24,949</u>
Net change in cash balances	(12,904)
Cash balances beginning of year	<u>46,280</u>
Cash balances end of year	<u><u>\$ 33,376</u></u>
Cash Basis Fund Balances:	
Unrestricted	<u><u>\$ 33,376</u></u>

See notes to financial statements

CITY OF ELGIN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**1) Summary of Significant Accounting Policies**

The City of Elgin is a political subdivision of the State of Iowa located in Fayette County. It was first incorporated in 1891 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and solid waste collection services for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Elgin has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the city are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

**Jointly Governed Organizations**

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Fayette County Solid Waste Commission, Fayette County Economic Development Commission and Fayette County E911 Service Board.

**B. Basis of Presentation**

**Government-wide Financial Statement** - The Cash Basis Statement of Activities and Net Position (previously referred to as net assets) reports information on all of the non-fiduciary activities of the City. For the most part, the effect of



interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental receipts, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's non-fiduciary net position. Net position is reported in the following categories/components:

*Non-expendable restricted net position* is subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

*Expendable restricted net position* results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds. All proprietary funds are aggregated and reported as non-major proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement

costs not paid from other funds.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all receipts and disbursements related to major capital projects in the City.

#### C. Management Focus and Basis of Accounting

The City of Elgin maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursements grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

#### D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

*Nonspendable* - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.



*Restricted* - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

*Committed* - Amounts which can be used for specific purposes determined pursuant to constraints formally imposed by the City Council through resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same action on it employed to commit those amounts.

*Unassigned* - All amounts not included in the preceding classifications.

#### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, community and economic development, debt service, capital projects and business type activities.

#### 2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investments trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

Interest Rate Risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

### 3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes and revenue bonds of the City are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 65,000	14,807	55,000	25,326	120,000	40,133
2015	47,000	12,395	57,000	24,063	104,000	36,458
2016	51,000	10,920	58,000	22,753	109,000	33,673
2017	53,000	9,322	60,000	21,413	113,000	30,735
2018	56,000	7,662	62,000	20,026	118,000	27,688
2019-2023	186,000	13,346	329,000	78,026	515,000	91,372
2024-2028	0	0	360,463	37,577	360,463	37,577
2029-2030	0	0	80,000	3,670	80,000	3,670
Total	\$ 458,000	68,452	1,061,463	232,854	1,519,463	301,306

#### Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements to repay the \$ 617,277 of sewer revenue bonds issued on February 10, 2010 with interest at 3% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance (\$ 540,000 at June 30, 2013). The bonds are payable solely from sewer customer net receipts. For the current year, principal and interest paid and total customer net receipts were \$ 40,678 and \$ 27,694, respectively.

The resolution providing for the issuance of the sewer revenue bonds includes the following provisions:

- 1) The bond will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the fund.
- 2) The rents, rates and other charges shall be at least sufficient to meet the operation and maintenance expenses of the sewer system and to produce and maintain net revenues at a level not less than 110% of the amount of principal and interest current due on the revenue bonds.

Net revenues for the fiscal year ended June 30, 2013 were only 68% of the amount of principal and interest currently due on the sewer revenue bonds.



On September 28, 2012, the City entered into a State Revolving Fund loan and disbursement agreement with Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank, Iowa N.A. (Trustee) for the issuance of \$ 741,000 of water revenue bonds with interest at 1.75% per annum. The bonds were issued pursuant to the provisions of Section 384.24A and 384.83 of the Code of Iowa for the purpose of paying the cost of constructing water system improvements. Upon request, the Trustee will reimburse the City for costs as they are incurred. At June 30, 2013, the City had drawn \$ 552,463, including a \$ 3,705 initiation fee, of the \$ 741,000 authorized and made principal payments of \$ 31,000 and interest payments of \$ 7,258, leaving a principal balance of \$ 521,463 at June 30, 2013. Wells Fargo Bank Iowa, N.A. has the remaining balance of \$ 188,537 in trust, which the City can request as the project progresses. Principal payments are currently being determined using a tentative repayment schedule, as a final repayment schedule has not yet been adopted.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay the \$ 741,000 of water revenue bonds issued on September 28, 2012 with interest at 1.75% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds are payable solely from water customer net receipts. For the current year, principal and interest paid and total customer net receipts were \$ 36,574 and \$ 3,556, respectively.

The resolution providing for the issuance of the water revenue bonds includes the following provisions:

- 1) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the fund.
- 2) The rents, rates and other charges shall be at least sufficient to meet the operation and maintenance expenses of the water system and to produce and maintain net revenues at a level not less than 110% of the amount of principal and interest due on the revenue bonds.

Net revenues for the fiscal year ending June 30, 2013 were only 10% of the amount of principal and interest due on the water revenue bonds.

#### **4) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to:

IPERS; P.O. Box 9117; Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2013 and 2012 were \$ 8,867 and \$ 7,720, respectively, equal to the required contributions for each year.

#### 5) **Compensated Absences**

The City employees accumulate a limited amount of earned but unused compensatory hours for subsequent use or for payment upon termination, retirement or death.

These accumulations are not recognized as disbursements until used or paid. The City's approximate liability for earned compensatory hours payable to employees at June 30, 2013, primarily relating to the General Fund, is \$ 900.

The liability has been computed based on rates of pay in effect at June 30, 2013.

#### 6) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2013 are as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option Sales Tax	\$ 23,446
	Capital Projects	<u>149,923</u>
		<u>173,369</u>
Special Revenue:		
Employee Benefit	General	<u>1,273</u>
Revolving Loan Fund	General	<u>1,000</u>
Debt Service	Special Revenue	
	Local Option Sales Tax	<u>21,005</u>
Enterprise:		
Sewer	Capital Projects	<u>24,949</u>
Total		<u>\$ 221,596</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**7) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$ 25,748.

**8) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks did not exceed commercial insurance in either of the past two years.

**9) Deficit Balance**

The Enterprise, Sewer Fund had a deficit balance of \$ 19,319 at June 30, 2013. The deficit balance was a result of rate increases not being in place soon enough to make required debt service payments. It is anticipated that rate increases will eliminate the deficit balance.

**10) Commitments**

In March, 2012, the City entered into two construction contracts totaling \$ 1,013,938 for water system and drainage improvements. At June 30, 2013, \$ 976,762 had been disbursed under these contracts, leaving a balance of \$ 37,176.

## **OTHER INFORMATION**



CITY OF ELGIN  
BUDGETARY COMPARISON SCHEDULE  
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES-  
BUDGET AND ACTUAL (CASH BASIS)-ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
OTHER INFORMATION  
Year Ended June 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts	Budgeted to Total Variance
<b>Receipts:</b>					
Property tax	\$ 166,941	-	166,941	165,498	1,443
Other city tax	44,451	-	44,451	44,678	(227)
Licenses and permits	1,340	-	1,340	1,150	190
Use of money and property	5,570	-	5,570	9,000	(3,430)
Intergovernmental	1,160,626	-	1,160,626	961,707	198,919
Charges for service	807	221,143	221,950	198,000	23,950
Special assessments	8,809	-	8,809	-	8,809
Miscellaneous	38,702	-	38,702	1,000	37,702
<b>Total receipts</b>	<b>1,427,246</b>	<b>221,143</b>	<b>1,648,389</b>	<b>1,381,033</b>	<b>267,356</b>
<b>Disbursements:</b>					
Public safety	34,087	-	34,087	30,735	(3,352)
Public works	138,560	-	138,560	231,000	(92,440)
Culture and recreation	59,656	-	59,656	56,020	(3,636)
Community and economic development	183,844	-	183,844	8,000	(175,844)
General government	70,507	-	70,507	76,800	(6,293)
Debt service	81,933	-	81,933	68,679	(13,254)
Capital projects	1,356,832	-	1,356,832	950,000	(406,832)
Business type activities	-	258,996	258,996	181,000	(77,996)
<b>Total disbursements</b>	<b>1,925,419</b>	<b>258,996</b>	<b>2,184,415</b>	<b>1,602,234</b>	<b>(582,181)</b>
Deficiency of receipts under disbursements	(498,173)	(37,853)	(536,026)	(221,201)	(314,825)
Other financing sources, net	444,821	24,949	469,770	500,000	(30,230)
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(53,352)	(12,904)	(66,256)	278,799	(345,055)
and other financing uses	604,384	46,280	650,664	592,677	57,987
Balances beginning of year					
Balances end of year	\$ 551,032	33,376	584,408	871,476	(287,068)

See accompanying independent auditor's report and notes to other information-  
budgetary reporting.

## CITY OF ELGIN

### Notes to Other Information - Budgetary Reporting

June 30, 2013

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. The nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, community and economic development, debt service, capital projects and business type activities functions.

## **SUPPLEMENTARY INFORMATION**

## Schedule 1

CITY OF ELGIN  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
As of and for the Year Ended June 30, 2013

	Special Revenue				Permanent	
	Road Use Tax	Employee Benefit	Local Option Sales Tax	Revolving Loan Fund	Cemetery Perpetual Care	Total
Receipts:						
Property tax	\$ -	146	-	-	-	146
Other city tax	-	-	44,451	-	-	44,451
Intergovernmental	65,408	-	-	14,750	-	80,158
Miscellaneous	-	-	-	22,306	250	22,556
Total receipts	65,408	146	44,451	37,056	250	147,311
Disbursements:						
Operating:						
Public works	89,819	1,809	-	-	-	91,628
Culture and recreation	-	1,755	-	-	-	1,755
Community and economic development	-	-	-	20,072	-	20,072
General government	-	1,999	-	-	-	1,999
Total disbursements	89,819	5,563	-	20,072	-	115,454
Excess (deficiency) of receipts over (under) disbursements	(24,411)	(5,417)	44,451	16,984	250	31,857
Other financing sources (uses):						
Operating transfers in	-	1,273	-	1,000	-	2,273
Operating transfers out	-	-	(44,451)	-	-	(44,451)
Total other financing sources (uses)	-	1,273	(44,451)	1,000	-	(42,178)
Net change in cash balances	(24,411)	(4,144)	-	17,984	250	(10,321)
Cash balances beginning of year	41,003	4,144	-	-	11,179	56,326
Cash balances end of year	\$ 16,592	-	-	17,984	11,429	46,005
Cash Basis Fund Balances:						
Nonspendable:	\$ -	-	-	-	11,429	11,429
Cemetery perpetual care	16,592	-	-	-	-	16,592
Restricted:	-	-	-	17,984	-	17,984
Streets	-	-	-	-	-	-
Economic development	-	-	-	-	-	-
Total cash basis fund balances	\$ 16,592	-	-	17,984	11,429	46,005

See accompanying independent auditor's report.

CITY OF ELGIN  
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND  
 CHANGES IN CASH BALANCES -  
 NONMAJOR PROPRIETARY FUNDS  
 As of and for the Year Ended June 30, 2013

	Enterprise			
	Water	Sewer	Solid Waste	Total
Operating receipts:				
Charges for service	\$ 70,868	83,740	66,535	221,143
Operating disbursements:				
Business type activities	67,312	56,046	56,976	180,334
Excess of operating receipts over Operating disbursements	3,556	27,694	9,559	40,809
Non-operating disbursements:				
Debt service	34,971	43,691	-	78,662
Excess (deficiency) of receipts Over(under) disbursements	(31,415)	(15,997)	9,559	(37,853)
Other financing sources:				
Operating transfers in	-	24,949	-	24,949
Net change in cash balances	(31,415)	8,952	9,559	(12,904)
Cash balances beginning of year	55,871	(28,271)	18,680	46,280
Cash balances end of year	\$ 24,456	(19,319)	28,239	33,376
Cash Basis Fund Balances:				
Unrestricted	\$ 24,456	(19,319)	28,239	33,376

See accompanying independent auditor's report.

CITY OF ELGIN  
SCHEDULE OF INDEBTEDNESS  
For Year Ended June 30, 2013

Schedule 3

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
<b>General obligation notes:</b>								
Fire station	Dec 1, 2006	4.90%	\$ 150,000	41,000	-	20,000	21,000	2,009
Street improvement	Jul 7, 2010	3.00	225,000	189,000	-	19,000	170,000	5,670
Bridge	May 2, 2012	3.25	292,000	292,000	-	25,000	267,000	10,254
<b>Total</b>				<b>\$ 522,000</b>	<b>-</b>	<b>64,000</b>	<b>458,000</b>	<b>17,933</b>
<b>Revenue bonds:</b>								
Sewer	Feb 10, 2010	3.00%	\$ 617,277	513,970	50,307	24,277	540,000	16,401
Water	Sep 28, 2012	1.75	552,463	-	552,463	31,000	521,463	5,574
<b>Total</b>				<b>\$ 513,970</b>	<b>602,770</b>	<b>55,277</b>	<b>1,061,463</b>	<b>21,975</b>
<b>Anticipation notes:</b>								
Water revenue	N/A	0%	\$ 133,000	133,000	-	133,000	-	-

See accompanying independent auditor's report.



Schedule 4

CITY OF ELGIN  
BOND AND NOTE MATURITIES  
June 30, 2013

Year Ending June 30,	General Obligation Notes			Total
	Fire Station	Street Improvement	Bridge	
	Issued Dec 1, 2006 Interest Rates	Issued Jul 7, 2010 Interest Rates	Issued May 2, 2012 Interest Rates	
2014	4.90%	3.00%	3.25%	
2015	\$ 21,000	\$ 19,000	\$ 25,000	65,000
2016	-	21,000	26,000	47,000
2017	-	24,000	27,000	51,000
2018	-	25,000	28,000	53,000
2019	-	26,000	30,000	56,000
2020	-	27,000	31,000	58,000
2021	-	28,000	32,000	60,000
2022	-	-	33,000	33,000
Total	\$ 21,000	\$ 170,000	\$ 267,000	458,000

Year Ending June 30,	Revenue Bonds			Total
	Sewer	Water		
	Issued Feb 10, 2010 Interest Rates	Issued Sep 28, 2012 Interest Rates		
2014	3.00%	1.75%	\$ 31,000	55,000
2015	3.00	1.75	32,000	57,000
2016	3.00	1.75	32,000	58,000
2017	3.00	1.75	33,000	60,000
2018	3.00	1.75	34,000	62,000
2019	3.00	1.75	34,000	63,000
2020	3.00	1.75	35,000	64,000
2021	3.00	1.75	36,000	66,000
2022	3.00	1.75	36,000	67,000
2023	3.00	1.75	37,000	69,000
2024	3.00	1.75	38,000	71,000
2025	3.00	1.75	39,000	74,000
2026	3.00	1.75	39,000	75,000
2027	3.00	1.75	40,000	77,000
2028	3.00	1.75	25,463	63,463
2029	3.00	-	-	39,000
2030	3.00	-	-	41,000
Total	\$ 540,000	\$ 521,463	\$ 1,061,463	

See accompanying independent auditor's report.

CITY OF ELGIN  
 SCHEDULE OF RECEIPTS BY SOURCE AND  
 DISBURSEMENTS BY FUNCTION -  
 ALL GOVERNMENTAL FUNDS  
 For the Last Two Years

	<u>2013</u>	<u>2012</u>
Receipts:		
Property tax	\$ 166,941	167,096
Other city tax	44,451	46,917
Licenses and permits	1,340	1,120
Use of money and property	5,570	6,957
Intergovernmental	1,160,626	1,148,465
Charges for service	807	1,265
Special assessments	8,809	39,155
Miscellaneous	<u>38,702</u>	<u>11,004</u>
Total	<u>\$ 1,427,246</u>	<u>1,421,979</u>
Disbursements:		
Operating:		
Public safety	\$ 34,087	30,311
Public works	138,560	101,054
Culture and recreation	59,656	81,664
Community and economic development	183,844	7,651
General government	70,507	75,992
Debt service	81,933	47,199
Capital projects	<u>1,356,832</u>	<u>1,571,831</u>
Total	<u>\$ 1,925,419</u>	<u>1,915,702</u>

See accompanying independent auditor's report.



CITY OF ELGIN  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2013

<u>Grantor/Program</u>	<u>CFDA</u> <u>Number</u>	<u>Agency</u> <u>Pass-through</u> <u>Number</u>	<u>Program</u> <u>Expenditures</u>
Direct:			
U.S. Department of Agriculture:			
Rural Development:			
Rural Business Enterprise Grant Program	10.769		\$ 14,750
U.S. Department of Homeland Security:			
Federal Emergency Management Agency:			
Assistance to Firefighters Grant Program:	97.044		165,681
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's			
Program and Non-Entitlement Grants in Hawaii:	14.228	09-CDR-003	41,394
		08-DRI-208	439,615
		10-HSG-029	92,990
			573,999
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	BRM-2297(601)-	
		8N-33	42,547
Total			\$ 796,977

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Elgin and is presented in conformity with an other comprehensive basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

# Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

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## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and  
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of Elgin, Iowa as of and for the year ended June 30, 2013, and the related notes to financial statements which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 10, 2014. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Elgin's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Elgin's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Elgin's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control we consider to be material weaknesses.



A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the Schedule of Findings and Questioned Costs as items II-A-13 and II-B-13 to be material weaknesses

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Elgin's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

#### City of Elgin's Responses to Findings

The City of Elgin's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City of Elgin's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Elgin during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

January 10, 2014



Dietz, Donald & Company  
Certified Public Accountants  
FEIN 42-1172392



# Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

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## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM ON INTERNAL CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

To the Honorable Mayor and  
Members of the City Council:

### Report on Compliance for the Major Federal Program

We have audited the City of Elgin, Iowa's compliance with the types of compliance described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Elgin's major federal program for the year ended June 30, 2013. The City of Elgin's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

### Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal program.

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Elgin's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Elgin's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination on the City of Elgin's compliance.

#### Opinion on the Major Federal Program

In our opinion, the City of Elgin complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

#### Report on Internal Control Over Compliance

The management of the City of Elgin is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Elgin's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Elgin's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the City of Elgin as of and for the year ended June 30, 2013, and have issued our report dated January 10, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Elkader, Iowa

January 10, 2014



Dietz, Donald and Company  
Certified Public Accountants  
FEIN 42-1172392

CITY OF ELGIN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2013

Part I: Summary of the Independent Auditor's Results:

- (1) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (2) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (3) The audit did not disclose any noncompliance which is material to the financial statements.
- (4) No material weaknesses in internal control over the major program were disclosed by the audit of the financial statements.
- (5) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (6) The audit disclosed no audit findings that are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (7) The major program was CFDA Number 14.228 - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii.
- (8) The dollar threshold used to distinguish between Type A and Type B programs was \$ 300,000.
- (9) The City of Elgin did not qualify as a low-risk auditee.



CITY OF ELGIN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2013

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- II-A-13 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-13 Financial Reporting - As is common in small organizations, the City does not prepare its financial statements, complete with notes, in accordance with U.S. generally accepted accounting principles. Accordingly, the City is unable to, and has not established internal controls over the preparation of financial statements.

Recommendation - As part of the audit, we have been requested to prepare a draft of the City's financial statements, including related notes to the financial statements. The City then performs a review of the financial statements. However, in order to provide improved oversight of the financial preparation services and implement controls over the financial reporting process, the City should establish review policies and procedures including the performance of some or all of the following functions:

Review the adequacy of financial statement disclosures.

Review and approve schedule and calculations supporting amounts included in the notes to the financial statements.

CITY OF ELGIN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2013

Apply analytical procedures to the draft financial statements.

Apply other procedures as considered necessary by the City.

Response - We will consider this, however, the City only prepares a complete set of financial statements when a single audit is required.

Conclusion - Response acknowledged.

II-C-13 Financial Reporting - During the audit, we identified mis-posting of loan payments between the Enterprise, Sewer Fund and the Enterprise, Water Fund.

Recommendation - The City should transfer \$ 7,767.55 from the Enterprise, Sewer Fund to the Enterprise, Water Fund. In addition, the City should implement procedures to ensure that debt service payments are charged to the proper fund.

Response - We will make the recommended transfer and double check debt service payments in the future to avoid posting errors.

Conclusion - Response accepted.

INSTANCES OF NONCOMPLIANCE

No matters were noted

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE

No matters were noted.

INTERNAL CONTROL DEFICIENCY

No material weaknesses were identified.

CITY OF ELGIN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2013

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-13 Certified Budget - Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the public safety, culture and recreation, community and economic development, debt service, capital projects and business type activities functions. Chapter 384.20 of the Code of Iowa states in part "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will amended in the future, if applicable.

Conclusion - Response accepted.

IV-B-13 Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-13 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-13 Business Transactions - Business transactions between the City and City officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
William Pfister, Mayor, Employee of Fauser Oil	LP and diesel fuel	\$ 5,301
Robert Frieden, Council Member, Employee of Bodensteiner Implement	Repair parts	512
Michael Baker, Council Member, Partner of Baker Concrete and Excavating	Sidewalk work	19,935



CITY OF ELGIN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2013

In accordance with Chapter 362.5(3)(K) of the Code of Iowa, the transactions with Bodensteiner Implement do not appear to represent a conflict of interest since total transactions with the business were less than \$ 2,500 during the fiscal year. The transactions with Fauser Oil and Baker Concrete and Excavating may represent a conflict of interest since the total cumulative transactions were greater than \$ 2,500.

Recommendation - The City should consult legal counsel to determine the disposition of the payments made to Fauser Oil and Baker Concrete and Excavating.

Response - We will consult with legal counsel.

Conclusion - Response accepted.

IV-E-13 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

IV-F-13 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-13 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-H-13 Revenue Bonds - Debt service requirements for the sewer revenue bonds for the fiscal year ended June 30, 2013 were \$ 40,678, while the Enterprise, Sewer Fund net operating receipts were only \$ 27,694. It appears the debt service requirements exceeding net operating receipts in the Enterprise, Sewer Fund violates the revenue bond covenants.

Debt service requirements for the water revenue bonds for the fiscal year ended June 30, 2013 were \$ 36,574, while the Enterprise, Water Fund net operating receipts were only \$ 3,556. It appears the debt service requirements exceeding net operating receipts in the Enterprise, Water Fund violates the revenue bond covenants.

Recommendation - The City should investigate ways to increase net operating receipts in both enterprise activities.



CITY OF ELGIN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2013

Response - The City has increased sewer rates and will investigate increasing water rates.

Conclusion - Response accepted.

IV-I-13 Financial Condition - The Enterprise, Sewer Fund had a deficit balance of \$ 19,319 at June 30, 2013.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response - The City has increased sewer rates.

Conclusion - Response accepted.

IV-J-13 Revolving Loan Fund - The City has entered into a grant agreement with the United States Department of Agriculture Rural Development to create a revolving loan fund to assist new businesses in Elgin. The transactions and balances for this fund have not been accounted for or reported by the City in the City's financial statements and reports. We have, however, included the revolving loan fund in these financial statements.

Chapter 384.20 of the Code of Iowa states in part "a City shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any City purpose, by a City officer, employee or other person, and which show the receipt, use and disposition of all City property."

Recommendation - The City should include this account in its records in accordance with Chapter 384.20 of the Code of Iowa.

Response - We will include Revolving Loan Fund transactions in City records and our Annual Financial Report in the future.

Conclusion - Response accepted.